

# Background

## LIFE AFTER THE BUDGET

**Outcome of the 1981-82 Budget:** The 1981-82 budget year was marked by a decline in the rate of growth of output and employment in Australia. GNP and non-farm product rose modestly (by 3% and 2½%, respectively) while inflation as measured by the CPI grew by 10.7%—an increase over the previous year's figure, and some 4% above the OECD average.<sup>1</sup> The Budget itself, which had aimed to be as 'balanced' as any in many years, yielded a small deficit: \$549 million in current dollars, the lowest in eight years; or 0.4% of GNP, the lowest in ten years. (This modest deficit was due mainly to an overrun of \$463 million in expenditure as a result of increases in expenditure on public sector wages, unemployment benefits and interest on public debt.)

The feeble expansionary stimulus to the economic system from the modest 1981-82 deficit was unplanned, unwanted and entirely accidental. It was in this climate of reduced expectations and constricting horizons that the Treasurer announced the 1982-83 Budget on 17 August 1982.

**The short term:** Budget forecasts of economic conditions over the current budgetary cycle could hardly be less buoyant:

- non-farm product is not expected to grow;
- overall product growth is expected to be no greater than a modest 1%;
- unemployment approaching 8% at the time of this writing, could reach 10% over the budget year, under the impact of the following factors: the expected average productivity increase of about 1%; the accrual to the labour force of the next vintage of school-leavers; and the anticipated addition of 50 000 immigrants to the labour force.

What are the main implications of the 1982-83 Budget in the short term? If the Government had any coherent strategy at all it had something to do—the question of motive aside—with the desire to soften the worst effects of the ongoing recession upon particularly disadvantaged groups. It also had something to do with the wish to mitigate, however inadequately, the perverse distributional effects of the direct income tax changes over which it has presided, with telling effect, since 1976. Obvious features of this overall strategy are:

- a 15.4% increase in outlays on social security and welfare—growing from 27.8% of total budgetary outlays in 1981-82 to 28.2% in 1982-83;
- increases in family allowances, pensions and unemployment benefits;
- introduction of a tax-free Family Income Supplement (FIS) to assist low income families with dependent children;
- lifting of the limits of private income that pensioners and supporting parents can receive without penalty;
- introduction of mortgage interest rebates; and

- continuation of twice-a-year indexation of pensions and some benefit rates.

However, the distributional impact of the Budget strategy can be over-stated. It should be remembered that the increasing economic inequality in Australia, like the escalating income security charges, are not short term problems. They reflect deep-seated structural and institutional problems which this Government has not been able to come to terms with. In the absence of a coherent policy program designed to meet those complex problems, several factors will combine to deny the disadvantaged in this society the potential benefits of the measures listed above:

- economic conditions over the remainder of the current budget year are likely to deteriorate more acutely than the Budget has allowed for (the increase in the number of unemployment benefit recipients has already exceeded the Budget estimate);
- widening of the indirect tax base runs counter to the distributional strategy of the Budget—and is inflationary; and
- higher levels of unemployment may induce increases in income taxes (perhaps through a 'mini-budget' during the next few months), made necessary by an overrun on social security appropriations and a dangerous drop in tax collections.

**The medium term and beyond:** Economic stagnation, rising unemployment, structural displacement and the deepening inequalities facing this society are not short term problems. They will be with us over the remainder of the 1980s; some, like the horrifying rate of unemployment in the 15-19 age group (20% at the moment) are likely to reach into the 1990s and beyond. There is little in the Budget to sustain a belief in this Government's ability to meet them. Monetarist policy has shown itself incapable, where it has been tried (e.g. the US, Britain, Australia), to lift those economies out of the trough of the 'long wave' which has engulfed the mixed economies of the West. The increasing pace of automation—and its inevitable socio-economic implications—have proven no less intractable. If this Government has no policy to cope with the relatively familiar problems of underinvestment or underconsumption, it should surprise no one if it fails to grasp the full measure of the foreshadowed, widespread utilisation of industrial robots in manufacturing and of computers in the service industries.

One hopes that informed, concerned citizens will not do likewise. Readers of the *Reporter*, who may be expected to show particular concern over the social security implications of the trends described, will gain considerable enlightenment (but will not be uplifted) by scrutiny of particular aspects of the Budget. For example, while it is true that outlays on social security and welfare have increased, both in absolute terms and

as proportion of total outlays, other components of the *social wage* (e.g. education, health, culture and recreation, payments to the States and local government) have declined. In other words, while the highly *visible* cash benefits have increased, the rather less visible components of the social wage have diminished, certainly in real terms. Coupled with the effects on employment of a prolonged recession (and on appropriations for unemployment benefits) the demographic trend (implying a steady increase in the number of social security beneficiaries relative to PAYE wage and salary earners—at least until the end of this century) places natural limits on this or any future Government's ability to continue to 'rob Peter to pay Paul': or at least to do so with impunity.

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## Notes

1. Unless otherwise stated, all figures relating to either the 1981-82 Budget or to the present Budget have been taken from *Budget Speech 1982-83*, AGPS, Canberra 1982 or from '1982-83 Budget Paper No. 1', *Budget Statements 1982-83*, AGPS, Canberra 1982.
2. Toohy, 'How Fraser ducked the issue', *National Times*, 22-28 August 1982, p.3.

## Statistics

These tables are based on information supplied by the Department of Social Security.

	July 1982	Aug. 1982	Sept. 1982	Oct. 1982
Applications lodged	72	65	64	71
Decided by AAT	4	4	10	8
Withdrawn	20	5	17	16
Conceded	10	19	24	31
No jurisdiction	2	0	4	3
Awaiting decision at end of month	842	879	888	901
Medical appeals	51	45	44	42
Other appeals	19	14	14	20
Unknown	2	6	6	9
ACT	2	0	0	1
NSW	16	31	23	24
NT	0	0	0	0
Qld	13	9	11	6
SA	7	4	4	13
Tas.	6	4	4	3
Vic.	25	15	21	22
WA	3	2	1	2